



**Judges' Retirement System II
Actuarial Valuation
as of
June 30, 2007**

**Establishing the Recommended Employer
Contribution for the Fiscal Year
July 1, 2008 through June 30, 2009**

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Actuarial Certification

Certification To the best of our knowledge, this report is complete and accurate and contains sufficient information to fully and fairly disclose the actuarial funded condition of the Judges' Retirement System II as of June 30, 2007. Based on the employee data provided by the Judges' Retirement System administrative staff at CalPERS, the statement of assets provided by the CalPERS Fiscal Services Division, and the benefits as outlined in Appendix B, it is our opinion that the valuation has been performed in accordance with generally accepted actuarial principles and that the assumptions and methods are reasonable for this plan.

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Highlights and Executive Summary

Contents

This section contains the following topics:

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Highlights and Executive Summary

Purpose of the Report This actuarial valuation of the Judges' Retirement System II of the State of California was performed by CalPERS staff actuaries as of June 30, 2007 in order to:

- set forth the actuarial assets and funding liabilities of this plan as of June 30, 2007;
- establish the actuarially determined recommended contribution rate for this plan for the fiscal year July 1, 2008 through June 30, 2009;
- provide actuarial information as of June 30, 2007, to the CalPERS Board of Administration and other interested parties, and
- provide pension information as of June 30, 2007 under Governmental Accounting Standards Board (GASB) Statement Number 27.

The use of this report for other purposes may be inappropriate.

Employer Contribution Rate This is the thirteenth annual actuarial valuation of the Judges' Retirement System II. This system began on November 9, 1994, to provide retirement and ancillary benefits to judges elected or appointed on or after that date. The employer contribution rate from the inception of the plan until June 30, 1996, was set by State statute. Subsequently, the employer contribution rate was determined through an actuarial valuation process. This actuarial valuation sets forth the employer contribution rate for the plan for the fiscal year July 1, 2008 through June 30, 2009. The employer contribution rate for the period July 1, 2007 through June 30, 2008 is shown for comparison purposes.

Employer Contribution Rate

| Fiscal Year | Fiscal Year |
|--|---|
| <u>July 1, 2007 - June 30, 2008</u> | <u>July 1, 2008- June 30, 2009</u> |
| 19.916% | 20.227% |

Employer Contribution Rate History This table provides the employer contribution rates for the Judges' Retirement System II from its inception to the rate established by this valuation.

| <u>Fiscal Year</u> | <u>Contribution Rate</u> |
|--------------------|--------------------------|
| 1995-96 | 18.800% |
| 1996-97 | 19.170% |
| 1997-98 | 21.920% |
| 1998-99 | 21.540% |
| 1999-00 | 18.567% |
| 2000-01 | 18.130% |
| 2001-02 | 18.508% |
| 2002-03 | 19.231% |
| 2003-04 | 19.217% |
| 2004-05 | 20.252% |
| 2005-06 | 19.848% |
| 2006-07 | 19.917% |
| 2007-08 | 19.916% |
| 2008-09 | 20.227% |

Funded Status of the Plan The tables below summarize the funded status of the Judges' Retirement System II as of June 30, 2007 on both an Actuarial Value of Asset and a Market Value basis.

Funded Status of the Plan on a Market Value Basis June 30, 2007

| <u>Aggregate Entry Age Normal Accrued Liability</u> | <u>Market Value of Assets</u> | <u>Funded Ratio</u> |
|---|-----------------------------------|-------------------------|
| \$ 294,982,560 | \$ 290,733,043 | 98.6% |

Funded Status of the Plan June 30, 2007 for Rate Setting Purposes

| <u>Aggregate Entry Age Normal Accrued Liability</u> | <u>Actuarial Value of Assets</u> | <u>Unfunded Liability/(Excess Assets)</u> | <u>Funded Ratio</u> |
|---|--------------------------------------|---|-------------------------|
| \$ 294,982,560 | \$ 267,604,460 | \$ 27,378,100 | 90.7% |

Judges' Retirement System II
Actuarial Valuation – June 30, 2007

**History of
Funded Status
and Funding
Progress**

Shown below is the history of funding progress for the plan. One could view the trend in the ratio of the unfunded liability to covered payroll as a measure of the ability of the employer to address the unfunded liability.

| Valuation Date | Aggregate Entry Age Normal Accrued Liability | Actuarial Value of Assets (AVA) | Funded Ratio (AVA) | Market Value of Assets (MVA) | Funded Ratio (MVA) | Unfunded Accrued Liability/ (Surplus) (AVA) | Projected Annual Covered Payroll* | Unfunded as a % of Covered Payroll |
|---------------------------|---|--|-----------------------------------|---|-----------------------------------|--|--|---|
| 6/30/95 | \$ 70,657 | \$ 239,474 | 338.9% | \$ 239,474 | 338.9% | (\$168,817) | \$ 3,944,181 | (4.3%) |
| 6/30/96 | 2,812,567 | 2,387,870 | 84.9% | 2,387,870 | 84.9% | 424,697 | 11,762,307 | 3.6% |
| 6/30/97 | 7,906,056 | 7,242,314 | 91.6% | 7,242,314 | 91.6% | 663,742 | 21,220,469 | 3.1% |
| 6/30/98 | 15,043,465 | 15,120,408 | 100.5% | 16,256,101 | 108.1% | (76,943) | 32,960,219 | (0.2%) |
| 6/30/99 | 26,921,274 | 27,154,854 | 100.9% | 28,372,726 | 105.4% | (233,580) | 41,448,759 | (0.6%) |
| 6/30/00 | 41,619,162 | 40,503,417 | 97.3% | 41,354,371 | 99.4% | 1,115,745 | 48,450,504 | 2.3% |
| 6/30/01 | 60,933,072 | 55,954,506 | 91.8% | 51,981,931 | 85.3% | 4,978,566 | 69,937,653 | 7.1% |
| 6/30/02 | 76,459,252 | 71,928,890 | 94.1% | 65,389,900 | 85.5% | 4,530,362 | 80,237,849 | 5.7% |
| 6/30/03 | 105,116,289 | 96,107,358 | 91.4% | 90,713,575 | 86.3% | 9,008,931 | 95,612,128 | 9.4% |
| 6/30/04 | 137,703,630 | 129,152,543 | 93.8% | 129,315,504 | 93.9% | 8,551,087 | 108,842,477 | 7.9% |
| 6/30/05 | 177,760,708 | 167,556,473 | 94.3% | 171,875,047 | 96.7% | 10,204,235 | 122,280,588 | 8.3% |
| 6/30/06 | 220,134,685 | 212,903,528 | 96.7% | 218,986,736 | 99.5% | 7,231,157 | 136,602,126 | 5.3% |
| 6/30/07 | 294,982,560 | 267,604,460 | 90.7% | 290,733,043 | 98.6% | 27,378,100 | 174,473,271 | 15.7% |

*Projected from the valuation date using a half year of the expected payroll growth assumption

**Changes Since
Prior
Valuation**

Actuarial Assumptions – No changes were made since the prior valuation.

Actuarial Methods – No changes were made since the prior valuation.

Plan Provisions - No changes were made since the prior valuation.

**Comparison
of Current
and Prior
Year Results**

The table on the following page is a comparison of key valuation results for the current valuation date to the corresponding values from the prior valuation date.

Judges' Retirement System II
Actuarial Valuation – June 30, 2007

| Valuation Results | <u>June 30, 2006</u> | <u>June 30, 2007</u> |
|---|-----------------------------|-----------------------------|
| Members Included in the Valuation | | |
| Active Members | 829 | 912 |
| Vested Terminated Members | 3 | 3 |
| Receiving Benefits | 13 | 11 |
| Total | <u>845</u> | <u>926</u> |
| Covered Payroll Prior Fiscal Year | \$ 125,318,592 | \$ 156,251,856 |
| Projected Covered Annual Payroll for Rate Payment Year | \$ 159,034,211 | \$ 212,309,886 |
| Average Annual Pay | \$ 151,168 | \$ 171,329 |
| Average Attained Age for Actives | 54.14 | 54.53 |
| Average Entry Age for Actives | 48.65 | 48.64 |
| Present Value of Benefits at Valuation Date | | |
| Active Members | \$ 551,074,071 | \$ 698,698,834 |
| Vested Terminated Members | 499,168 | 639,648 |
| Refunded Members | 0 | 0 |
| Receiving Benefits | 5,211,371 | 4,700,023 |
| Total | <u>\$ 556,784,610</u> | <u>\$ 704,038,505</u> |
| Accrued Liability | | |
| Active Members | \$ 214,424,146 | \$ 289,642,889 |
| Vested Terminated Members | 499,168 | 639,648 |
| Refunded Members | 0 | 0 |
| Receiving Benefits | 5,211,371 | 4,700,023 |
| Total | <u>\$ 220,134,685</u> | <u>\$ 294,982,560</u> |
| Actuarial Value of Assets | \$ 212,903,528 | \$ 267,604,460 |
| Unfunded Liability/(Excess Assets) | \$ 7,231,157 | \$ 27,378,100 |
| Employer Contribution Required (in Dollars) | | |
| Payment for Normal Cost | \$ 31,398,124 | \$ 41,808,063 |
| Payment for Amortization Bases | 275,420 | 1,136,043 |
| Total | <u>\$ 31,673,544</u> | <u>\$ 42,944,106</u> |
| Contribution Required (Percent of Projected Payroll) | | |
| Payment for Normal Cost | 19.743% | 19.692% |
| Payment for Amortization Bases | <u>0.173%</u> | <u>0.535%</u> |
| Total | 19.916% | 20.227% |

Summary of Liabilities And Recommended Employer Contribution

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This section contains the following topics:

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Summary of Liabilities and Recommended Employer Contribution

**Development
of Employer
Normal Cost**

The table below illustrates the development of employer normal cost.

| | | |
|--|----|---------------|
| 1. Present Value of Benefits for Active Members at Entry Age | \$ | 445,018,521 |
| 2. Present Value of Future Salaries at Entry Age | \$ | 1,607,022,217 |
| 3. Total Normal Cost Rate at Entry Age [(1)/(2)] | | 27.692% |
| 4. Projected Covered Annual Payroll (7/1/08 – 6/30/09) | \$ | 212,309,886 |
| 5. Total Normal Cost at Attained Age [(3)x(4)] | \$ | 58,792,854 |
| 6. Expected Employee Contributions [8% x (4)] | \$ | 16,984,791 |
| 7. Employer Normal Cost [(5) - (6)] | \$ | 41,808,063 |
| 8. Employer Normal Cost Rate [(7)/(4)] | | 19.692% |

**Development
of Accrued
& Unfunded
Liability**

The following table illustrates how the Accrued Liability and the Unfunded Accrued Liability are developed.

| | |
|---|------------------|
| 1. Present Value of Future Benefits at the Valuation Date | |
| a) Active Members | \$ 698,698,834 |
| b) Vested Terminated Members | 639,648 |
| c) Refunded Members | 0 |
| d) Receiving Benefits | <u>4,700,023</u> |
| e) Total | \$ 704,038,505 |
| 2. Present Value of Future Employee Contributions at the Valuation Date | 118,173,019 |
| 3. Present Value of Future Employer Normal Cost at the Valuation Date | 290,882,926 |
| 4. Accrued Liability [(1e)-(2)-(3)] | \$ 294,982,560 |
| 5. Actuarial Value of Assets | \$ 267,604,460 |
| 6. Unfunded Actuarial Liability [(4) - (5c)] | \$ 27,378,100 |

Gain/Loss Analysis Shown below is an analysis of the (Gain)/Loss for the fiscal year ending on the valuation date. The Gain or Loss is shown separately for assets, contributions (excluding expenses), expenses and liabilities.

A. Total (Gain)/Loss for the Year

| | |
|---|---------------|
| 1. Unfunded Liability/(Excess Assets) as of 6/30/06 | \$ 7,231,157 |
| 2. Expected Payment on the Unfunded Liability during 2006-2007 | 237,688 |
| 3. Interest through 6/30/07 $[0.0725 \times (A1) - ((1 + 0.0725)^{\frac{1}{2}} - 1) \times (A2)]$ | 515,793 |
| 4. Expected Unfunded Liability as of 6/30/07 Before All Other Changes $[(A1) - (A2) + (A3)]$ | \$ 7,509,262 |
| 5. Actual Unfunded Liability as of 6/30/07 | 27,378,100 |
| 6. Total (Gain)/Loss for 2006-2007 $[(A5) - (A4)]$ | \$ 19,868,838 |

B. Contribution (Gain)/Loss for the Year

| | |
|---|---------------|
| 1. Expected Contribution for 2006-2007 | \$ 38,135,216 |
| 2. Actual Contribution for 2006-2007 | 38,756,573 |
| 3. Contribution (Gain)/Loss for 2006-2007 $[(B1) - (B2)]$ | \$ (621,357) |

C. Asset (Gain)/Loss for the Year

| | |
|---|----------------|
| 1. Actuarial Value of Assets as of 6/30/06 | \$ 212,903,528 |
| 2. Contributions Received during 2006-2007 | 38,756,573 |
| 3. Benefits and Refunds Paid during 2006-2007 | (2,436,747) |
| 4. Expected Interest for 2006-2007 $[0.0725 \times (C1) + ((1 + 0.0725)^{\frac{1}{2}} - 1) \times ((C2) + (C3))]$ | 16,729,064 |
| 5. Expected Assets as of 6/30/07 $[(C1) + (C2) + (C3) + (C4)]$ | \$ 265,952,418 |
| 6. Actual Actuarial Value of Assets as of 6/30/07 | 267,604,460 |
| 7. Asset (Gain)/Loss for 2006-2007 $[(C5) - (C6)]$ | \$ (1,652,042) |

D. Liability (Gain)/Loss for the Year

| | |
|---|---------------|
| 1. Total (Gain)/Loss for 2006-2007 (A6) | \$ 19,868,838 |
| 2. Contribution (Gain)/Loss for 2006-2007 (B3) | (621,357) |
| 3. Asset (Gain)/Loss for 2006-2007 (C7) | (1,652,042) |
| 4. Liability (Gain)/Loss for 2006-2007 $[(D1) - (D2) - (D3)]$ | \$ 22,142,237 |

**Schedule of
Amortization
Bases**

The schedule below shows the development of the proposed payment on the Amortization Bases. The rate smoothing method requires that gains and losses be combined into a single base and amortized over 30 years. Please refer to Appendix A for an explanation of how amortization periods are determined.

| Reason for Base | Date Established | Remaining Amortization Period | Balance on 6/30/07 | Expected Payment on UAL 07-08 | Amount Remaining on 6/30/08 | Scheduled Payment for Fiscal Year 2008-2009 |
|--------------------|---------------------|-------------------------------------|-----------------------|-------------------------------------|-----------------------------------|--|
| Fresh Start | 6/30/07 | 30 | \$ 27,378,100 | \$ 390,821 | \$ 28,958,273 | \$ 1,136,043 |
| Total | | | \$ 27,378,100 | \$ 390,821 | \$ 28,958,273 | \$ 1,136,043 |

**Development
of Employer
Contribution**

This table illustrates total recommended employer contribution over the course of 2008-2009. The amount of money is illustrated in dollars and then is shown as a percentage of the projected payroll that is expected over the course of the year.

| | |
|--|----------------------|
| 1. Actuarially Required Employer Contribution in Dollars | |
| a) Employer Normal Cost | \$ 41,808,063 |
| b) Amortization Payment of the Unfunded Liability | 1,136,043 |
| c) Total Required Employer Contribution Amount | <u>\$ 42,944,106</u> |
| 2. Projected Covered Annual Payroll (7/1/08-6/30/09) | \$ 212,309,886 |
| 3. Required Employer Contribution as a Percentage of Payroll | |
| a) Employer Normal Cost | 19.692% |
| b) Amortization Payment on the Unfunded Liability | <u>0.535%</u> |
| c) Total Required Employer Contribution Rate | 20.227% |

**Reconciliation
of Employer
Contribution
Rates**

This table illustrates how the contribution rate is calculated and how and, more importantly, why the Employer Contribution Rate differs this year from the previous year.

| | |
|------------------------------|---------|
| 2007-2008 Employer Rate | 19.916% |
| Effects of (Gain)/Loss | 0.311% |
| Effect of Plan Changes | 0.000% |
| Effect of Assumption Changes | 0.000% |
| Effect of Method Changes | 0.000% |
| Total Effect of Changes | 0.311% |
| 2008-2009 Employer Rate | 20.227% |

**Reconciliation
of Estimated
Employer
Contribution**

This table illustrates the corresponding dollar amounts to the Employer Contribution Rate that was shown above (based on projected annual payroll).

| | |
|--|--------------|
| 2007-2008 Required Estimated Employer Contribution | \$31,673,544 |
| Effect of Change in Payroll Over Time | \$10,610,383 |
| Effect of (Gain)/Loss | 660,178 |
| Effect of Plan Changes | 0 |
| Effect of Assumption Changes | 0 |
| Effect of Method Changes | 0 |
| Total Effect of Changes | \$11,270,562 |
| 2008-2009 Required Estimated Employer Contribution | \$42,944,106 |

Summary of Assets

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Summary of Assets

**Asset
Allocation**

Shown below is the Market Value of Assets, by asset type, as of the valuation date.

Cash \$ 94

Investments at Market Value

| | |
|-------------------------------|-------------------|
| Surplus Money Investment Fund | 32,618,000 |
| Short-term Investment Fund | 320,483 |
| Domestic Equity | 87,124,671 |
| Domestic Debt Securities | 89,646,064 |
| International Equity | 53,975,998 |
| Real Estate Equities | <u>24,806,744</u> |
| Subtotal of Investments | \$ 288,491,960 |

Accounts Receivable

| | |
|-----------------------------------|------------------|
| Due from Other Funds | 43,098 |
| Interest Accrued on Investments | 369,395 |
| Member and Employer Contributions | <u>2,072,583</u> |
| Subtotal of Accounts Receivable | \$ 2,485,076 |

Accounts Payable

| | |
|------------------------------|------------------|
| Due to PERF | (54,358) |
| Unapplied Remittances | <u>(189,727)</u> |
| Subtotal of Accounts Payable | \$ (244,085) |

Fund Balance at Market Value on Valuation Date \$ 290,733,043

**Reconciliation
of Market
Value of
Assets**

The following displays the change in the Market Value of Assets from the prior valuation to the current valuation by type of transaction.

| | |
|--------------------------------------|-----------------------|
| 1. Beginning Balance as of 6/30/2006 | \$ 218,986,736 |
| 2. Contributions: | |
| Member | 11,694,132 |
| Employer | 27,062,441 |
| 3. Benefit Payments | (1,004,875) |
| 4. Refunds | (980,602) |
| 5. Administration Costs | (451,270) |
| 6. Investment Earnings | 35,426,481 |
| 7. Ending Balance as of 6/30/2007 | <u>\$ 290,733,043</u> |

**Development
of the
Actuarial
Value of
Assets**

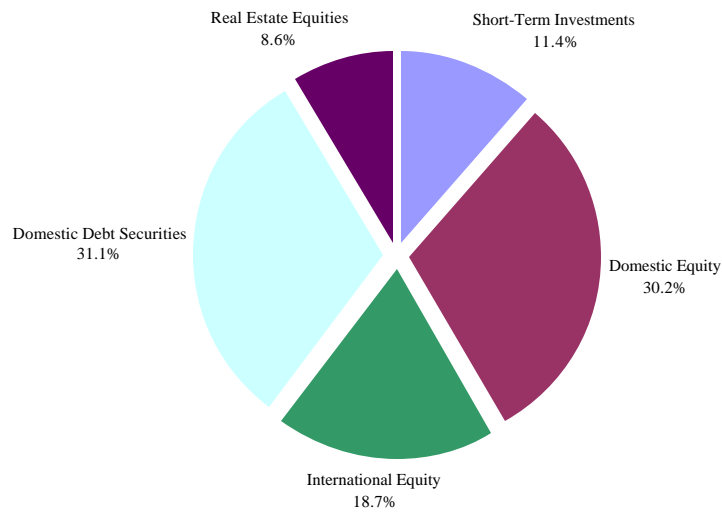
The development of the Actuarial Value of Assets for the current valuation date is shown below. This is the amount of asset used in the determination of the contribution rate.

| | | |
|-----|--|----------------|
| 1. | Actuarial Value of Assets as of 6/30/2006 | \$ 212,903,528 |
| 2. | Contributions Received during fiscal 2006-2007 | |
| | Member Contributions | 11,694,132 |
| | Employer Contributions | 27,062,441 |
| | Total Contributions | 38,756,573 |
| 3. | Deductions | |
| | Benefit Payments | (1,004,875) |
| | Refunds | (980,602) |
| | Administration Costs | (451,270) |
| | Total Deductions | (2,436,747) |
| 4. | Total Current Year Change [(2)+(3)] | 36,319,826 |
| 5. | Expected Investment Return during fiscal 2006-2007 $[(1) \times 0.0725 + (4) \times ((1.0725)^{1/2} - 1)]$ | 16,729,064 |
| 6. | Expected Actuarial Value of Assets as of June 30, 2007 $[(1) + (4) + (5)]$ | 265,952,418 |
| 7. | Market Value of Assets as of June 30, 2007 | 290,733,043 |
| 8. | One-Fifteenth of the Difference Between Market Value of Assets and Expected Actuarial Value of Assets $[(7) - (6)] \times 1/15$ | 1,652,042 |
| 9. | Preliminary Actuarial Value of Assets $[(6) + (8)]$ | 267,604,460 |
| 10. | Ratio of Preliminary Actuarial Value of Assets to Market Value of Assets $[(9) / (7)]$ | 92.04% |
| 11. | Final Actuarial Value of Assets as of June 30, 2007 Not to be less than 80% of MVA or Greater than 120% of MVA | \$ 267,604,460 |
| 12. | Final Ratio of Actuarial Value of Assets to Market Value of Assets $[(11) / (7)]$ | 92.04% |

**Asset
Allocation
Chart**

This is the graphical representation of how the money contained in the Judges' Retirement II Fund is allocated for investment.

**Asset Allocation as of June 30, 2007
(Dollar Value in the Millions)**



Receivables and liabilities of \$2.5 million and \$244 thousand, respectively, are not included.

Summary of Participant Data

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This section contains the following topics:

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| Distribution of Average Monthly Salaries | 22 |

Summary of Participant Data

Reconciliation of Members

The below table illustrates a reconciliation of the participant data over the course of the valuation year. It identifies numerically who entered the plan, who left the plan and who remained in the plan in the same status as on the previous valuation date or who moved to a new status over the course of the year.

Reconciliation of Members For the Fiscal Year Ending June 30, 2007

| | Actives | Inactive | Retirees and Beneficiaries | Total |
|-------------------------------------|------------|----------|-------------------------------|------------|
| As of June 30, 2006 | 829 | 3 | 13 | 845 |
| 1. New Entrants | 88 | 0 | 0 | 88 |
| 2. Non-Vested Terminations | (1) | 0 | 0 | (1) |
| 3. Vested Terminations | (4) | 2 | 0 | (2) |
| 4. Disabilities | 0 | 0 | 0 | 0 |
| 5. Retirements | 0 | 0 | 0 | 0 |
| 6. Refunds/Monetary Credits Paid | 0 | (2) | 0 | (2) |
| 7. Death with Beneficiary | 0 | 0 | 0 | 0 |
| 8. Benefits Ceasing (Beneficiaries) | 0 | 0 | (2) | (2) |
| As of June 30, 2007 | 912 | 3 | 11 | 926 |

Distribution of Active Members The following table displays the number of active participants by age and service as of June 30, 2007.

Distribution of Active Members Attained Age and Years of Service as of June 30, 2007

| Attained Age | Years of Service at Valuation Date | | | | | | | Total |
|-----------------|------------------------------------|-----|-----|-----|-----|-----|-----|-------|
| | 0-1 | 1-2 | 2-3 | 3-4 | 4-5 | 5-9 | 10+ | |
| 15-34 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 35-39 | 7 | 1 | 0 | 0 | 0 | 0 | 0 | 8 |
| 40-44 | 19 | 13 | 12 | 5 | 9 | 5 | 0 | 63 |
| 45-49 | 23 | 24 | 20 | 13 | 20 | 49 | 14 | 163 |
| 50-54 | 20 | 25 | 9 | 18 | 42 | 84 | 42 | 240 |
| 55-59 | 14 | 19 | 17 | 18 | 17 | 83 | 41 | 209 |
| 60-64 | 2 | 4 | 8 | 10 | 10 | 72 | 35 | 141 |
| 65+ | 2 | 3 | 2 | 5 | 5 | 26 | 45 | 88 |
| Total | 87 | 89 | 68 | 69 | 103 | 319 | 177 | 912 |

Distribution of Average Monthly Salaries The following table displays the average salaries of active participants by age and service as of June 30, 2007.

Distribution of Average Annual Salaries by Age and Service as of June 30, 2007

| Attained Age | Years of Service at Valuation Date | | | | | | | Total |
|-----------------|------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| | 0-1 | 1-2 | 2-3 | 3-4 | 4-5 | 5-9 | 10+ | |
| 15-34 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| 35-39 | \$ 149,170 | \$ 171,648 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 151,980 |
| 40-44 | \$ 163,367 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 0 | \$ 169,150 |
| 45-49 | \$ 164,807 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 170,683 |
| 50-54 | \$ 163,781 | \$ 172,639 | \$ 171,648 | \$ 171,648 | \$ 172,238 | \$ 171,943 | \$ 171,648 | \$ 171,302 |
| 55-59 | \$ 160,409 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 172,544 | \$ 174,670 | \$ 171,844 |
| 60-64 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,992 | \$ 173,772 | \$ 172,351 |
| 65+ | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 171,648 | \$ 172,601 | \$ 173,851 | \$ 173,056 |
| All Ages | \$ 162,605 | \$ 171,926 | \$ 171,648 | \$ 171,648 | \$ 171,889 | \$ 172,114 | \$ 173,328 | \$ 171,329 |

Appendix A – Actuarial Methods and Assumptions

Actuarial Funding Method

This valuation was performed using the "Aggregate Entry Age Normal" funding method. The required contribution was determined as a level percentage of payroll that, if paid from the average date of entry into the Judges' Retirement System II, provides for all benefits expected to be paid. This method is commonly used to determine contribution rates for new plans, or "tiers" of benefits. It produces stable normal costs in a population which grows at an uneven rate, as might be the case for California judges.

Asset Valuation Method

In order to dampen the effect of short term market value fluctuations on employer contribution rates, the following asset smoothing technique is used. First an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-fifteenth of the difference between the actual Market Value of Assets and the Expected Value of Assets as of the valuation date. However, in no case will the Actuarial Value of Assets be less than 80% nor greater than 120% of the actual Market Value of Assets. This smoothing technique is the same as that used for all CalPERS public agencies.

Amortization Policy

The unfunded liability is uniquely segregated into "bases" and amortized over different periods of time as a level percentage of payroll. The policy is the same as that used for all CalPERS public agencies: all changes in liability due to plan amendments, changes in actuarial assumptions or changes in actuarial methodology will be amortized separately over a 20-year period. In addition, the annual contribution amount with regard to gains and losses is calculated over a rolling 30-year amortization period. Finally, if the plan's accrued liability exceeds its actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization payment of the unfunded liability.

An exception to the funding rules above is used whenever the application of such rules results in inconsistencies. In these cases a "fresh start" approach is used. This simply means that the current unfunded actuarial liability is projected and amortized over a set number of years. It generally occurs when a total negative rate would result or a positive payment would be required on a negative unfunded

actuarial liability (or conversely a negative payment on a positive unfunded actuarial liability). The amortization period depends upon the situation. However, the minimum employer contribution rate is equal to the employer normal cost minus a 30-year amortization of any surplus.

**Actuarial
Assumptions**

The actuarial assumptions used in the valuation are shown below. These assumptions are based upon recommendations from both CalPERS actuarial staff and outside consulting actuaries. The assumptions did not change from the prior year's valuation.

**Economic
Assumptions**

The following table identifies the economic assumptions used in the valuation.

| | June 30, 2007 |
|---|----------------------|
| Gross Investment Return: | 7.75% |
| Less Administrative Expense: | 0.50% |
| Net Investment Return, compounded annually: | 7.25% |
| Individual Salary Increases, compounded annually: | 3.25% |
| Inflation: | 3.00% |

Overall Payroll Growth:

The segregated bases of the unfunded liability are amortized as a level percentage of payroll. In order to amortize a base over a level percentage of payroll in a plan that is growing at an uneven rate, the bases must be amortized by an increasing annuity. An increasing annuity table is derived each year using the following methodology. The average pay is projected to increase by 3.25% each year. The number of actives is projected to increase each year by the projected decrease in the Judges' Retirement System I (JRS I). The decrease in the number of actives in JRS I is computed by projecting the active population of JRS I (a closed group) for each year starting June 30, 2007. The projected payroll is the product of the number of actives and average pay.

Service Retirement

The table below illustrates the assumptions used in the valuation to determine the probability of a judge retiring out of the system.

Service Greater than 20 years

| Age | Rate |
|----------|-------|
| Below 65 | 0.000 |
| 65 | 0.750 |
| 66 | 0.400 |
| 67 | 0.300 |
| 68 | 0.350 |
| 69 | 0.500 |
| 70* | 1.000 |

* For Judges age 70 and older with 5 or more years of service the probability of retirement is 100%.

Withdrawal

Rates vary by age and years of service as shown in the table below.

| Entry Age | Years of Service | | | | | |
|-----------|------------------|---------|---------|---------|---------|-----------|
| | 0-1 | 1-2 | 2-3 | 3-4 | 4-5 | 5 or more |
| 35 | 0.00525 | 0.00525 | 0.00525 | 0.00525 | 0.00525 | 0.00225 |
| 40 | 0.00450 | 0.00450 | 0.00450 | 0.00450 | 0.00450 | 0.00375 |
| 45 | 0.00375 | 0.00375 | 0.00375 | 0.00375 | 0.00375 | 0.00750 |
| 50 | 0.00375 | 0.00375 | 0.00375 | 0.00375 | 0.00375 | 0.00900 |
| 55 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00825 |
| 60 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00750 |

Pre-Retirement Non-Industrial Mortality and Disability

Rates vary by age as shown in the table below.

| Attained Age | Pre-Retirement Mortality | Non-Industrial Disability |
|--------------|--------------------------|---------------------------|
| 35 | 0.00079 | 0.00000 |
| 40 | 0.00122 | 0.00100 |
| 45 | 0.00164 | 0.00190 |
| 50 | 0.00256 | 0.00320 |
| 55 | 0.00365 | 0.00540 |
| 60 | 0.00577 | 0.00850 |
| 65 | 0.01064 | 0.01220 |
| 70 | 0.00000 | 0.00000 |

Industrial Mortality Rates are zero.

Industrial Disability Rates are zero.

Post Retirement Mortality The 1994 Group Annuity Mortality Table, for males and females.

| Age | Healthy Male | Healthy Female | Non-Industrial Disability | Age | Healthy Male | Healthy Female | Non-Industrial Disability |
|-----|--------------|----------------|---------------------------|-----|--------------|----------------|---------------------------|
| 35 | 0.00085 | 0.00048 | 0.02000 | 75 | 0.03721 | 0.02269 | 0.09100 |
| 40 | 0.00107 | 0.00071 | 0.02480 | 80 | 0.06203 | 0.03940 | 0.11350 |
| 45 | 0.00158 | 0.00097 | 0.02930 | 85 | 0.09724 | 0.06774 | 0.15350 |
| 50 | 0.00258 | 0.00143 | 0.03600 | 90 | 0.15293 | 0.11627 | 0.21350 |
| 55 | 0.00443 | 0.00229 | 0.04520 | 95 | 0.23361 | 0.18621 | 0.29370 |
| 60 | 0.00798 | 0.00444 | 0.05780 | 100 | 0.31724 | 0.27643 | 0.39770 |
| 65 | 0.01454 | 0.00864 | 0.06910 | 105 | 0.40722 | 0.38360 | 0.80000 |
| 70 | 0.02373 | 0.01373 | 0.07860 | 110 | 0.48675 | 0.48233 | 1.00000 |

Marital Status Probability of being married at service retirement or disability retirement is 90%.

Age of Spouse Assumes that female spouses are three years younger than male spouses.

Monetary Credit Plan Assumptions The actuarial assumptions used to convert the balance in the Monetary Credit Plan to an annuity value are those used in the valuation of this plan and are stated above.

Appendix B – Summary of Principal Plan Provisions

| | |
|--------------------------------|---|
| Background | Judges' Retirement System II (JRS II) was established in 1994 to create a fully funded, actuarially-sound retirement system for judges appointed or elected on or after November 9, 1994. This system provides a unique combination of two basic types of retirement allowances: a defined benefit plan and a monetary credit plan. The defined benefit plan provides a lifetime monthly retirement allowance of up to 75 percent of final compensation. The monetary credit plan allows for a refund of member contributions, employer contributions (see below) and interest at retirement. |
| Membership | The JRS II provides retirement, death, withdrawal and disability benefits for Supreme and Appellate Court Justices, Superior Court Judges, and Municipal Court Judges who are appointed or elected on or after November 9, 1994, and their beneficiaries. |
| Member Contributions | Members of the system contribute 8% of their annual compensation to the plan. |
| Monetary Credit Account | Members accrue monthly monetary credits equal to 18% of monthly salary. These monetary credits are accumulated in a Monetary Credit Account for each member and also credited with earnings monthly at a rate, not less than zero, equal to the annual net earnings rate achieved by the Fund. The Monetary Credit Account provides an optional benefit at eligible retirement ages (described below) if the member chooses this option. If a member withdraws from the system before he or she has vested (accumulated at least 5 years of service), the member is paid the amount of his or her 8% of salary contributions to the system, but not the full Monetary Credit Account. After 5 years of service however, the Monetary Credit Account becomes the property of the member upon withdrawal. |
| Service Retirement | <p>Eligibility - Judges must be at least age 65 with 20 years or more of service or age 70 with a minimum of 5 years of service. Two types of service retirement are available: Defined Benefit Plan or Monetary Credit Plan. Election of a plan must be made within 30 days after retirement.</p> |

Defined Benefit Plan - This option provides a "defined benefit" of

3.75% of the highest 12-month average salary per year of service, up to 75% of final average pay for judges reaching age 65 with at least 20 years of service. The normal form of payment is a joint and 50% contingent annuity with the spouse as contingent annuitant. This provides a surviving spouse with a monthly allowance equal to 50% of the judge's allowance. Optional settlements are available which reduce a judge's normal retirement benefit.

Monetary Credit Plan - This option provides a cash payment in a single lump sum or the member may elect to receive an annuity at retirement based on the value of his or her Monetary Credit Account.

**Non-
Industrial
Disability
Retirement
(Non-Work
Related)**

Eligibility - Judges who have five years of service and become permanently disabled because of a mental or physical disability may apply to the Commission On Judicial Performance for disability retirement.

Benefit - An allowance, based upon the judge's age, equal to the lesser of the following:

- 3.75% of final compensation multiplied by the number of years of service the judge would have been credited had he or she continued to work until the age he or she would have first been eligible to retire, or
- 65% of the judge's average monthly salary during the 12 months preceding the retirement date.

The normal form of payment is a joint and 50% contingent annuity with the spouse as the contingent annuitant.

**Industrial
Disability
Retirement
(Work
Related)**

Benefit - Judges receive 65% of the judge's average monthly salary during the 12 months preceding the retirement date regardless of age or length of service.

The normal form of payment is a joint and 50% contingent annuity with the spouse as the contingent annuitant.

**Non-
Industrial
Pre-
Retirement**

If Eligible for Service Retirement - Spouses receive either the monthly retirement allowance equal to one-half of the judge's "defined benefit" plan allowance or the judge's monetary credits.

Death Benefit *If Not Eligible for Service Retirement* - Spouses receive the judge's monetary credits or three times the annual salary at the time of death paid in 36 monthly installments, whichever is greater.

**Industrial
Pre-
Retirement
Death Benefit** If a judge dies in office, is age 65 or older with a minimum of 20 years of service and elects to have this provision apply (one time irrevocable election while judge is in office) then a payment to the surviving spouse is payable upon death. The spouse would receive a monthly allowance equal to the allowance paid to the judge had he or she retired immediately preceding death.

**Post
Retirement
Death Benefit** *If the Judge elected the Defined Benefit Plan* - The surviving spouse of a retired judge who elected an Optional Settlement in the defined benefit plan receives one of four options:

- Option 1 - return of unused accumulated contributions;
- Option 2 - 4 - the Optional Settlement Benefit, the amount varies based on the option chosen by the member.

If the Judge elected the Monetary Credit Plan - If the full amount of monetary credits was received in a lump sum, there are no survivor benefits. If the judge elected the Monetary Credit Plan with benefits paid as an annuity, the spouse receives the amount based on the option chosen at retirement.

**Cost-Of-
Living
Adjustments
(COLA)** *If the Judge elected the Defined Benefit Plan* - The retirement allowance of retired judges who have elected the defined benefit plan will be adjusted every January after the judge has been retired six months. The adjustment is based on the United States city average of the "Consumer Price Index For All Urban Consumers," as published by the United States Bureau Of Statistics. No adjustment shall be made unless the cost-of-living increase equals or exceeds one percent (1%). Further, the allowance shall not be increased more than three percent (3%) in a single year. Increases shall be compounded.

Appendix C – GASB Statement No. 27

GASB 27 Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2008 to June 30, 2009 has been determined by an actuarial valuation of the plan as of June 30, 2007. The contribution rate for the indicated period is 20.227% of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2009, this contribution rate, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2008 to June 30, 2009. The employer and the employer's auditor are responsible for determining the NPO and the APC.

**Retirement
Program
Assumptions**

A summary of principal assumptions and methods used to determine the ARC is shown below.

More complete information on assumptions and methods is provided in Appendix A of this report. Appendix B contains a description of benefits included in the valuation.

| | |
|----------------------------|---|
| Valuation Date | June 30, 2007 |
| Actuarial Cost Method | Aggregate Entry Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Average Remaining Period | 31 Years as of the Valuation Date |
| Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions | |
| Investment Rate of Return | 7.250% (net of administrative expenses) |
| Projected Salary Increases | 3.25% |
| Inflation | 3.00% |
| Payroll Growth | 3.25% to 14.07%* |
| Individual Salary Growth | 3.25% |

* The average pay is projected to increase by 3.25% each year. The number of actives is projected to increase each year by the projected decrease in the Judges' Retirement System I (JRS I). The decrease in the number of actives in JRS I is computed by projecting the active population of JRS I (a closed group) for each year starting June 30, 2007. The projected payroll is the product of the number of actives and average pay.

**Schedule of
Funding
Progress**

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

| Valuation Date | Entry Age Normal Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Liability (UL) (a)-(b) | Funded Status (b)/(a) | Annual Covered Payroll (c) | UL As a % of Payroll [(a)-(b)]/(c) |
|---------------------------|---|--|--|--------------------------------------|---|---|
| 06/30/07 | \$ 294,982,560 | \$ 267,604,460 | \$ 27,378,100 | 90.7% | \$ 156,251,856 | 17.5% |
| 06/30/06 | 220,134,685 | 212,903,528 | 7,231,157 | 96.7% | 125,318,592 | 5.8% |
| 06/30/05 | 177,760,708 | 167,556,473 | 10,204,235 | 94.3% | 111,767,064 | 9.1% |
| 06/30/04 | 137,703,630 | 129,152,543 | 8,551,087 | 93.8% | 99,005,124 | 8.6% |

**Discussion of
Payroll Growth
Assumption**

As discussed in Agenda item 5 of the June 20, 2006 Benefits and Program Administration Committee, the payroll growth assumption used in calculating the ARC is not in accordance with the requirements of paragraph 10(f)(3) of GASB Statement No. 27. The effect of the difference in payroll growth rate does not have a significant impact on the recommended employer contribution rate. We will continue to monitor the situation carefully to ensure that a change is made if necessary.

Appendix D – Glossary of Actuarial Terms

| | |
|----------------------------------|---|
| Accrued Liability | The total dollars needed as of the valuation date to fund all benefits earned in the past for <i>current</i> members. |
| Actuarial Assumptions | Assumptions made about certain events that will affect pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability and retirement rates. Economic assumptions include investment return, salary growth and inflation. |
| Actuarial Methods | Procedures employed by actuaries to achieve certain goals of a pension plan. These may include things such as funding method, setting the length of time to fund the past service liability and determining the actuarial value of assets. |
| Actuarial Valuation | The determination, as of a valuation date of the normal cost, actuarial accrued liability, actuarial value of assets and related actuarial present values for a pension plan. These valuations are performed annually or when an employer is contemplating a change to their plan provisions. |
| Actuarial Value of Assets | <p>The actuarial value of assets used for funding purposes is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognized in subsequent years.</p> <p>This method helps to dampen large fluctuations in the employer contribution rate.</p> |
| Amortization Bases | <p>Separate payment schedules for different portions of the unfunded liability. The total unfunded liability (or side fund) can be segregated by "cause", creating "bases" and each such base will be separately amortized and paid for over a specific period of time. This can be likened to a home mortgage that has 24 years of remaining payments and a second on that mortgage that has 10 years left. Each base or each mortgage note has its own terms (payment period, principal, etc.)</p> <p>Generally in an actuarial valuation, the separate bases consist of changes in liability (principal) due to amendments, actuarial assumption changes, or methodology changes and gains and losses. Payment periods are determined by Board policy and vary based on the cause of the change.</p> |

| | |
|----------------------------|---|
| Amortization Period | The number of years required to pay off an amortization base. |
|----------------------------|---|

| | |
|--|---|
| Annual Required Contributions (ARC) | The employer's periodic required annual contributions to a defined benefit pension plan, calculated in accordance with the plan assumptions. The ARC is determined by multiplying the employer contribution rate by the payroll reported to CalPERS for the applicable fiscal year. However, if this contribution is fully prepaid in a lump sum, then the dollar value of the ARC is equal to the Lump Sum Prepayment. |
|--|---|

| | |
|------------------|--|
| Entry Age | <p>The earliest age at which a plan member begins to accrue benefits under a defined benefit pension Plan or risk pool. In most cases, this is the same as the date of hire.</p> <p>(The assumed retirement age less the entry age is the amount of time required to fund a member's total benefit. Generally, the older a member is at hire, the greater the entry age normal cost. This is mainly because there is less time to earn investment income to fund the future benefits.)</p> |
|------------------|--|

| | |
|----------------------|---|
| Excess Assets | When a plan or pool's actuarial value of assets is greater than its accrued liability, the difference is the plan or pool's excess assets. A plan with excess assets is said to be overfunded. The result is that the plan or pool can temporarily reduce future contributions. |
|----------------------|---|

| | |
|-------------------------------------|---|
| Entry Age Normal Cost Method | An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e. level % of payroll). |
|-------------------------------------|---|

| | |
|--------------------|--|
| Fresh Start | When multiple amortization bases are collapsed into one base and amortized over a new funding period. At CalPERS, fresh starts are used to avoid inconsistencies that would otherwise occur. |
|--------------------|--|

| | |
|----------------------|--|
| Funded Status | A measure of how well funded a plan or risk pool is. Or equivalently, how "on track" a plan or risk pool is with respect to assets vs. accrued liabilities. We calculate a funded ratio by dividing the actuarial value of assets by the accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets. |
|----------------------|--|

| | |
|------------------------------------|---|
| Normal Cost | The annual cost of service accrual for the upcoming fiscal year for active employees. The normal cost plus surcharges should be viewed as the long term contribution rate. |
| <hr/> | |
| Pension Actuary | A person who is responsible for the calculations necessary to properly fund a pension plan. |
| <hr/> | |
| Prepayment Contribution | A payment made by the employer to reduce or eliminate the year's required employer contribution. |
| <hr/> | |
| Present Value of Benefits | The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for current members. |
| <hr/> | |
| Rolling Amortization Period | An amortization period that remains the same each year or does not decline. |
| <hr/> | |
| Superfunded | A condition existing when the actuarial value of assets exceeds the present value of benefits. When this condition exists on a given valuation date for a given plan, employee contributions for the rate year covered by that valuation may be waived. |
| <hr/> | |
| Unfunded Liability | When a plan or pool's actuarial value of assets is less than its accrued liability, the difference is the plan or pool's unfunded liability. The plan or pool will have to temporarily increase contributions. |